



Bread Production Industry Benchmark Survey

Prepared based on 2018 data





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Reason of research

The present study serves to identify trends in the bread industry based on the first, second and third size category companies' financial statements for 2018.

The report presents the average financial indicators of the sector, which forms the "benchmark" of the sector and provides information on its financial situation.



Methodology

The data used in the study are taken from the website of the Reporting Portal, where the annual financial statements are published by the legislation of Georgia.

These companies fall into the second and third categories, of which only five are audited.

This information is based on 2018 data, the focus is on the leading companies in the market, the number of which is 20.

The study focuses on a review of the bread market, specifically exports and imports, with data from the International Trade Center's website.





Research Results

The study focuses on existing bread companies with a total turnover of more than 240 million GEL, a total assets of 96 million GEL, and a total profit of up to 11 million GEL before tax.

The study identified industry-leading companies in terms of revenue, assets, and profits.

The analysis of the data showed that Georgian companies in the bread industry have the following financial indicators: return on assets averaged 14% (ROA), return on equity (ROE) 18%.

Besides, the financial ratios of the industry's average liquidity, efficiency, and solvency were determined.

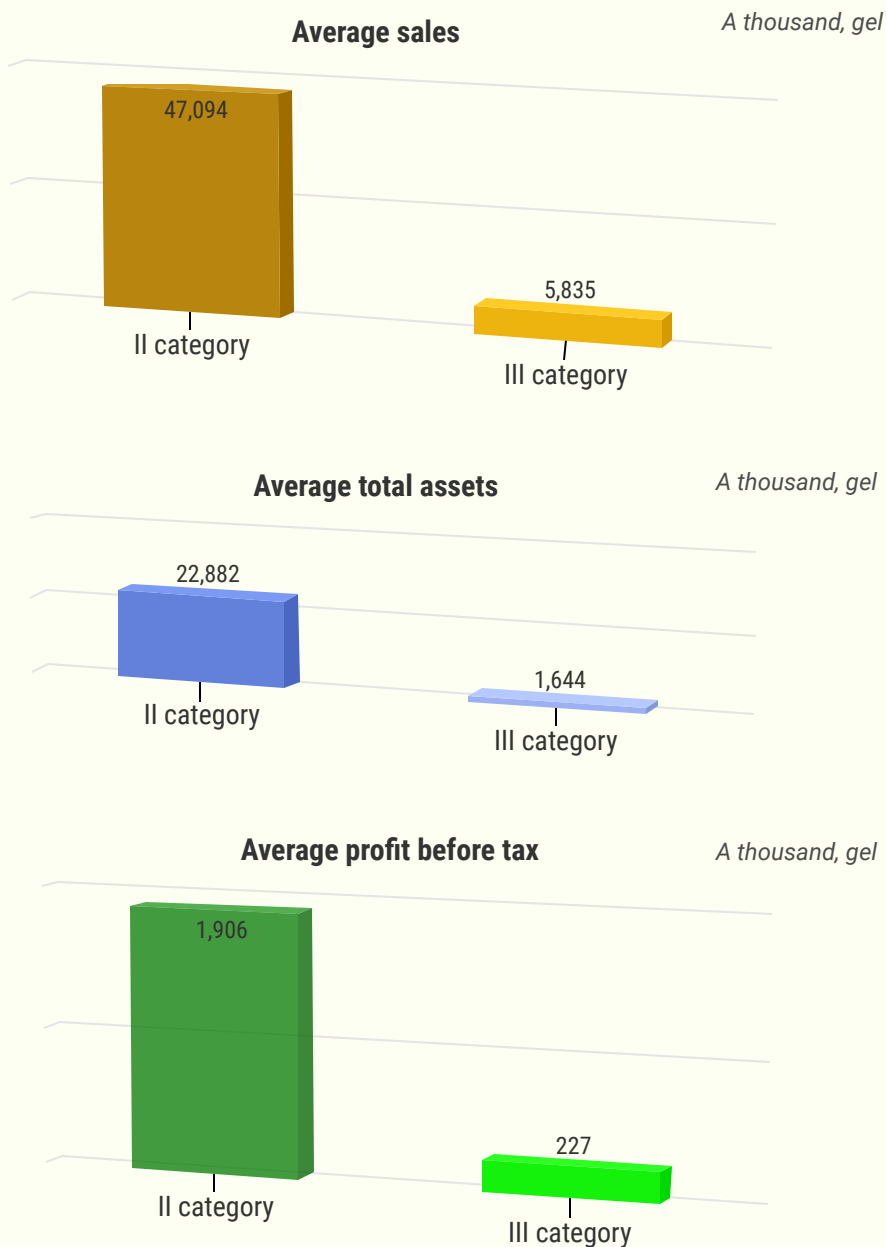
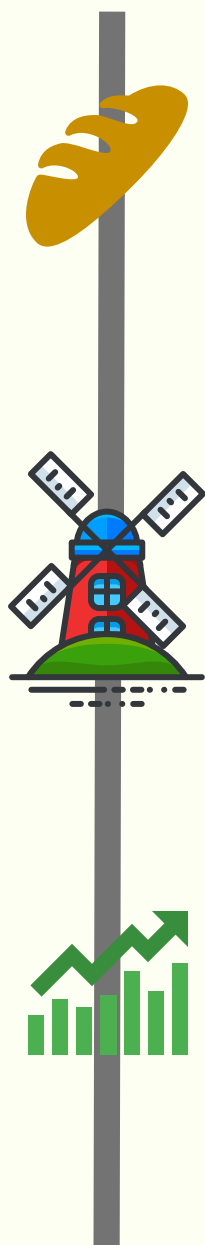
Also noteworthy is the number of companies (6 companies) that ended the year with losses, indicating competition in the industry.





Research Results

The study also revealed the average data for 2018 companies by category. Of the 20 companies listed, only three belong to the second category, while the remaining 17 companies merge into the third category.



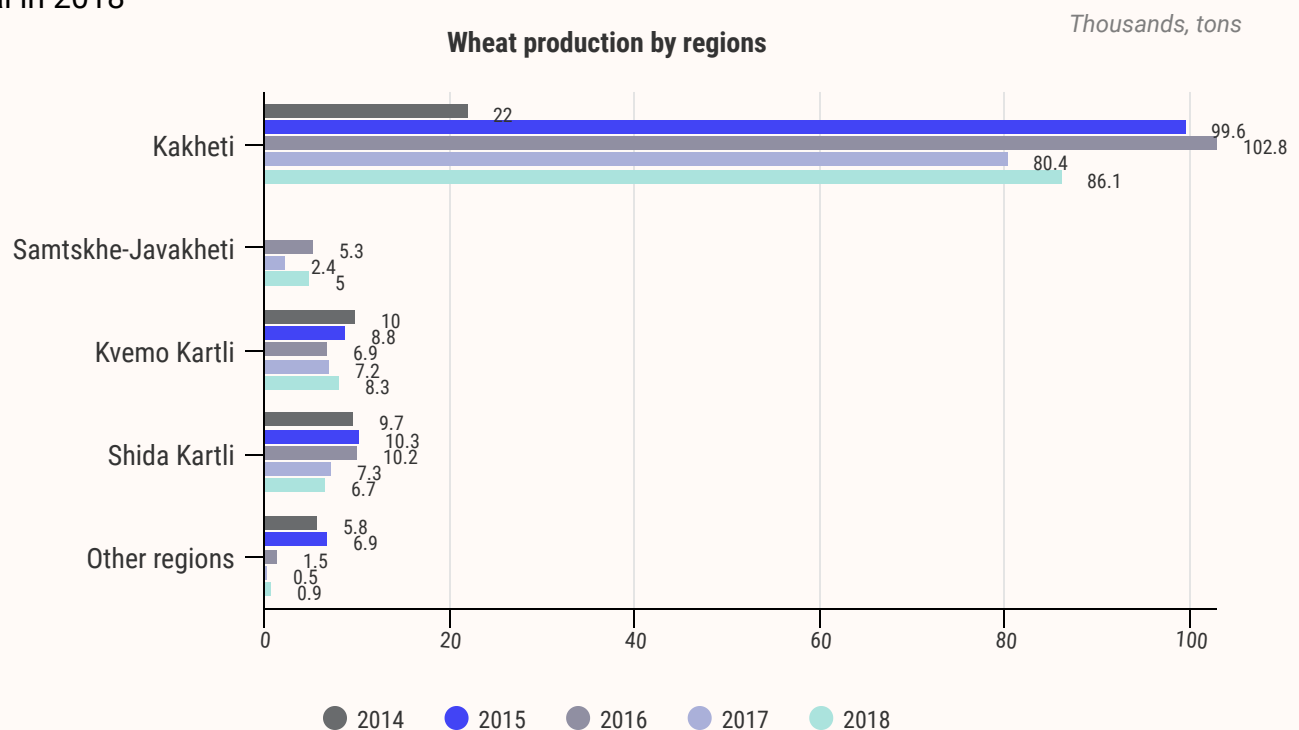
Note: The low average profitability of the third category is since 6 companies ended the year with losses.



General overview of the bread market

The bread market in Georgia is gradually growing, as the country has the potential to create and produce high-quality bread that meets the needs of the country, thus increasing the number of bread companies and, consequently, increasing production. According to the website of the Reporting Portal in 2018

The number of bread companies was 20. According to the National Statistics Office of Georgia, in 2018, the volume of wheat in Georgia amounted to 107.1 thousand tons. The diagram below shows the wheat production by regions.



Source: geostat.ge

As can be seen from the graph, most of the grain crops, including wheat, are produced in Kakheti. In the last ten years, the highest amount of wheat was recorded in 2016 and amounted to 102.8 thousand tons, while in 2018 its quantity exceeded 86 thousand tons, which is a good figure and indicates the potential of local production.



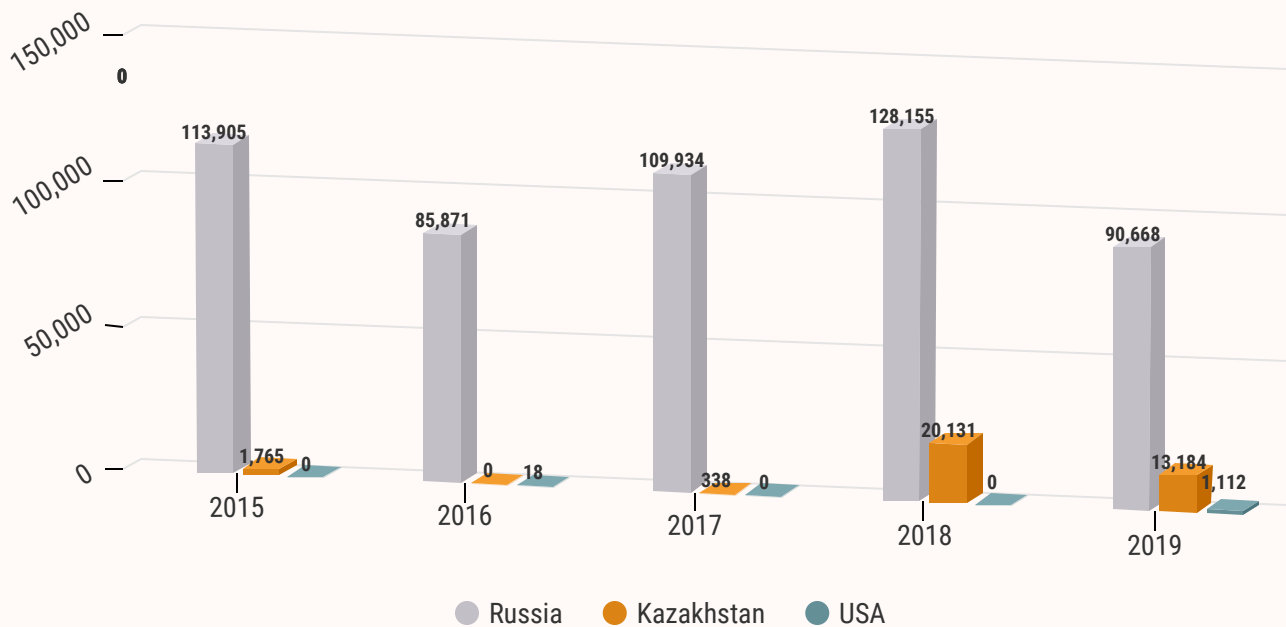
General overview of the bread market

According to the International Trade Center, the total value of wheat and rye imported in 2019 has decreased compared to previous years, indicating an increase in local production. The value of wheat imported in 2018 amounted to 149,854 thousand US dollars, while in 2019 it decreased to 105,087 thousand US dollars.

The top three countries from which major wheat imports come are: Russia, Kazakhstan, and the United States.

Below is a diagram of the cost of imports by country, with statistics for the last five years:

A thousand, dollars



Source: International Trade Center

As can be seen from the graph, the main importing country in the last five years is the Russian Federation, from which the main part of wheat is imported. The highest rate was recorded in 2018, the value of imports amounted to more than 128 thousand US dollars, while in 2019 it significantly decreased and amounted to 90,668 thousand US dollars.

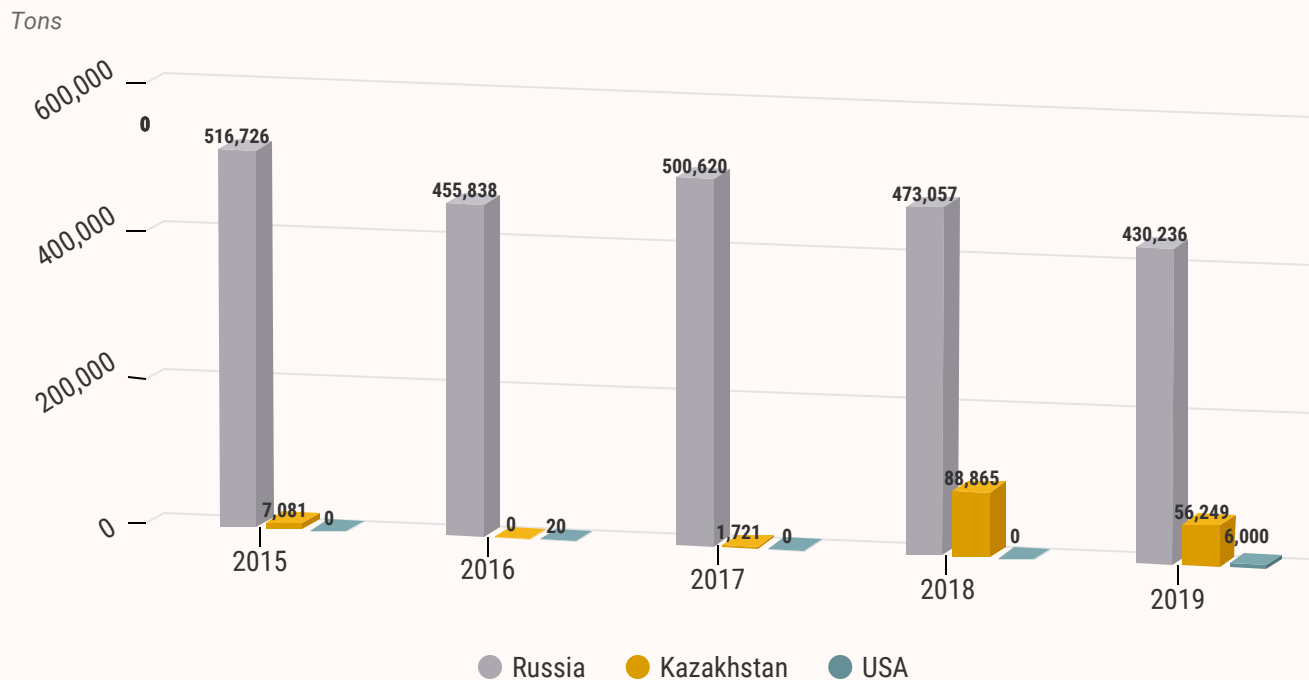


General overview of the bread market

The amount of wheat imported in 2018 amounted to 566,302 tons, while in 2019 it decreased to 492,826 tons.

The top three countries from which major wheat imports come are: Russia, Kazakhstan and the United States.

Below is a diagram of the number of imports by country, with statistics for the last five years:



Source: International Trade Center

As can be seen from the graph, the main importing country in the last five years is the Russian Federation, from which the main part of wheat is imported. The highest rate was recorded in 2015, when imports amounted to 516,726 tons. In 2018, the amount of wheat was 473,057 tons, while in 2019 it decreased and amounted to 430,236 tons.

In the case of Kazakhstan, the maximum amount of wheat imports was recorded in 2018 and amounted to 88,865 tons, while the maximum amount of wheat imported from the United States in 2019 was 6,000 tons.

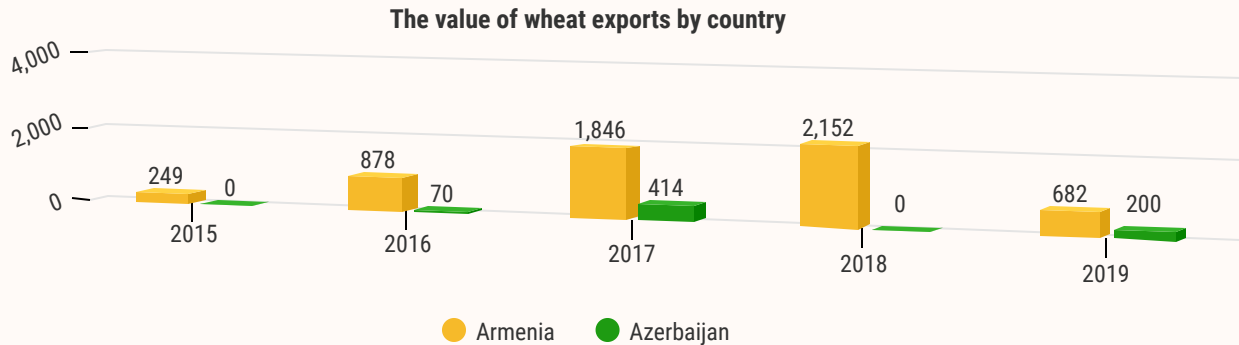


General overview of the bread market

Although a large number of grain crops are imported to Georgia, export data is also interesting. According to the International Trade Center, the total value of goods exported in 2018 amounted to 10,058 thousand US dollars, while in 2019 it decreased significantly to 3,313 thousand US dollars.

Below is a diagram of the value of exports by country, with statistics for the last five years:

A thousand, dollars

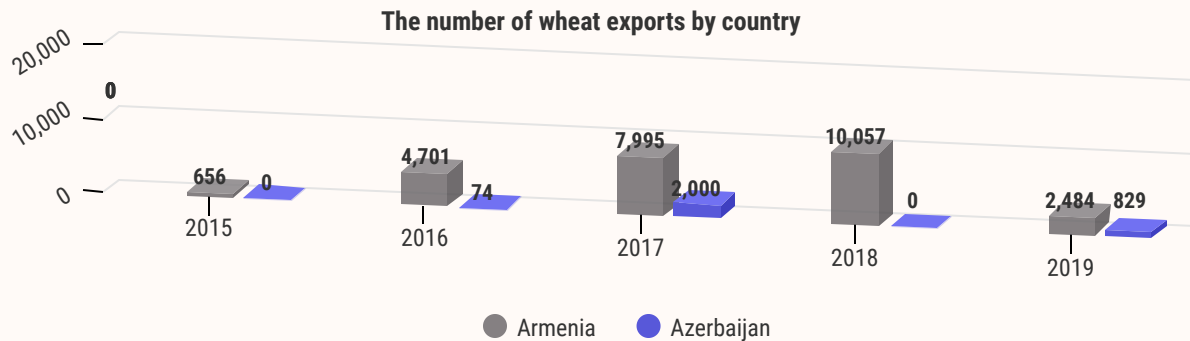


Source: International Trade Center

The maximum value of exported products in 2018 in Armenia was 2,152 thousand US dollars, while in 2019 the value of imports decreased significantly compared to the previous year and amounted to 682 thousand US dollars.

As for the amount of exports, a similar tendency is observed:

Tons



Source: International Trade Center

The maximum number of products exported to Armenia in 2018 was 10,057 tons, while in 2019 the value of exports decreased significantly compared to the previous year, similar to the value caused by the regulation adopted by the Government of Georgia in 2018, with a ban on wheat road transport.

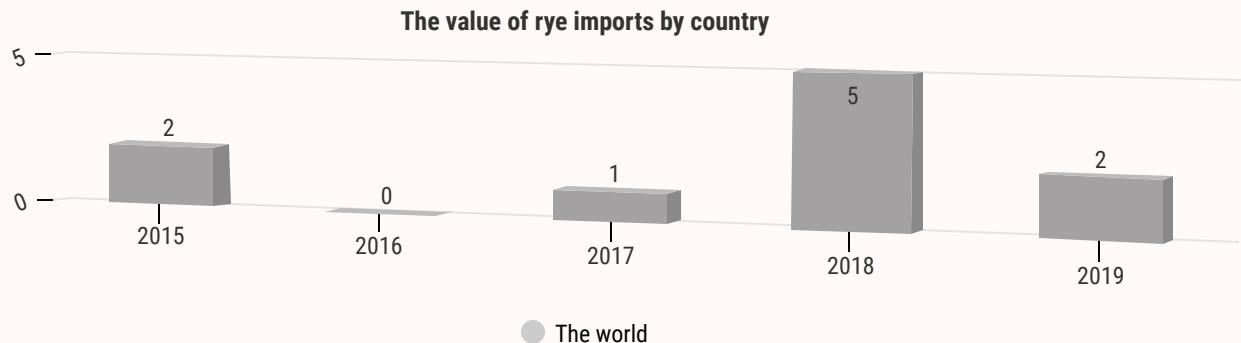


General overview of the bread market

It can be said that after wheat, there is a high demand for rye bread, which is not exported, although the import data is interesting. According to the International Trade Center, the total value of goods imported in 2018 reached \$ 5,000, while in 2019 it was significantly reduced to \$ 2,000.

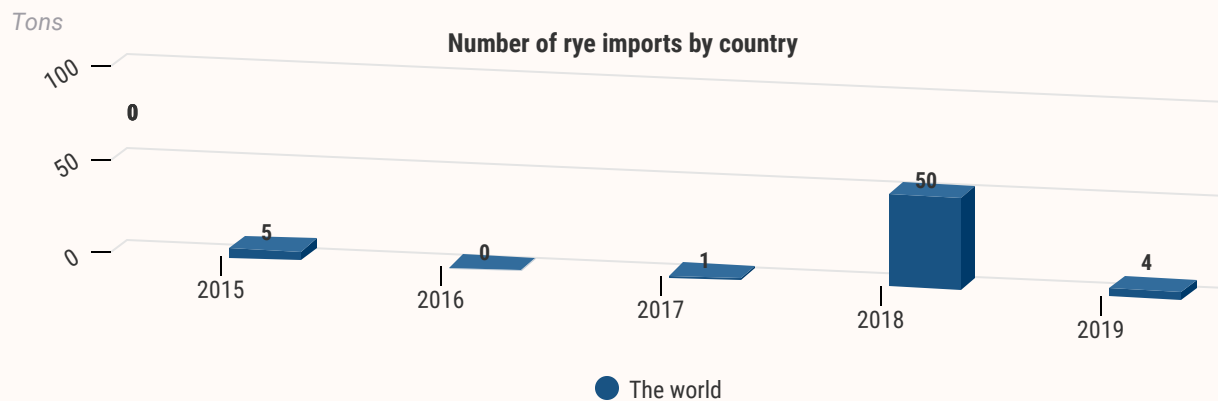
Importing countries over the past five years have been: Ukraine, the Russian Federation, and Switzerland, and the total value of exports over the past five years has been as follows:

A thousand, dollars



Source: International Trade Center

In 2018, the maximum value of imported products was 5 thousand USD, which was imported from Russia, and in 2019 the cost of imports decreased compared to the previous year and amounted to 2 thousand USD, the products were imported from Ukraine. As for the number of imports, a similar trend is observed:



Source: International Trade Center

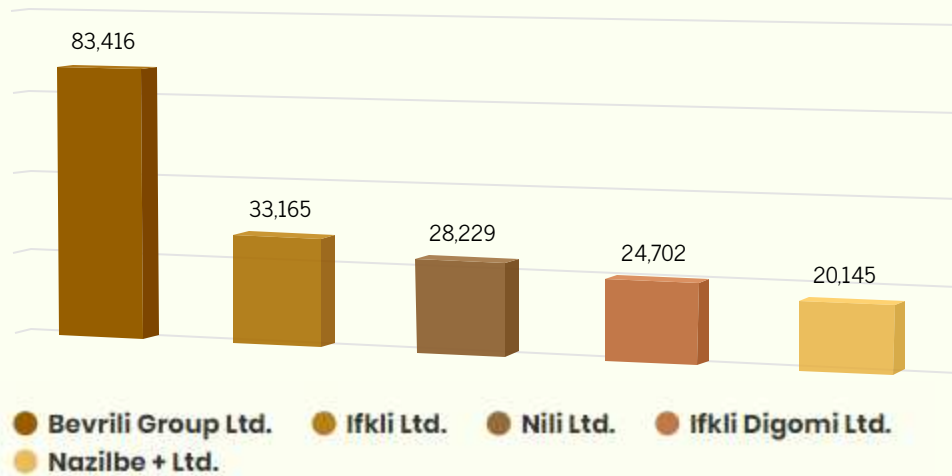
In 2018, the maximum amount of imported products was recorded at 50 tons, while in 2019 the value of imports decreased significantly compared to the previous year and amounted to 4 tons.



Top 5 Bread Manufacturing Company by Income (2018)

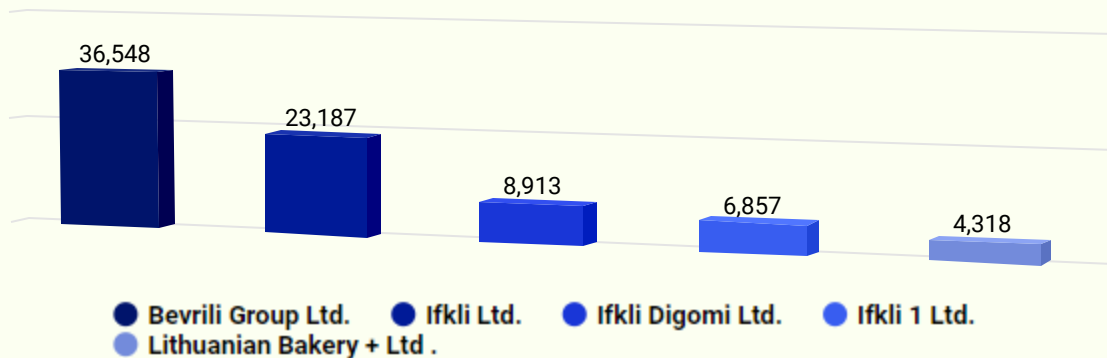
A thousand, gel

The total income of these companies is 78% of the total income of other bread companies.



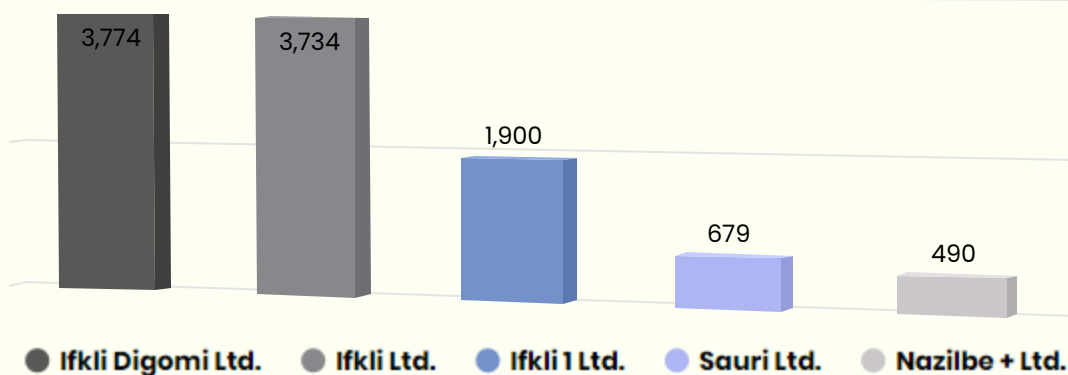
According to total assets, the top 5 companies in the bread industry (2018)

A thousand, gel



Profit before tax, Top 5 Bread Manufacturing Company (2018)

A thousand, gel

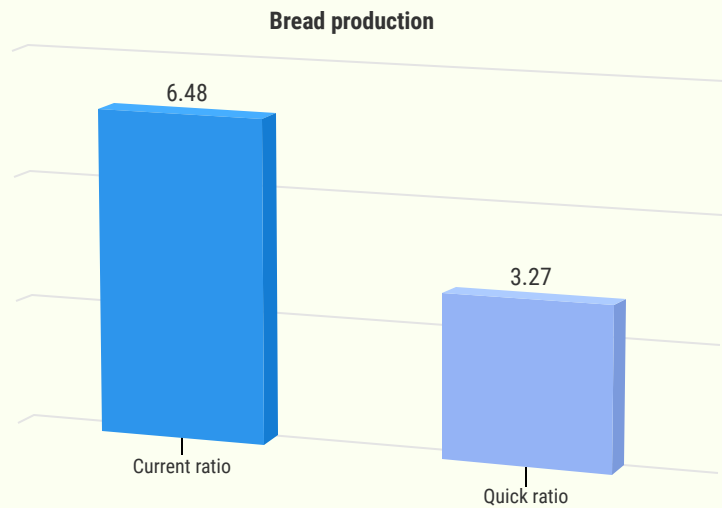




Average financial ratios of the industry (2018)

Liquidity ratios

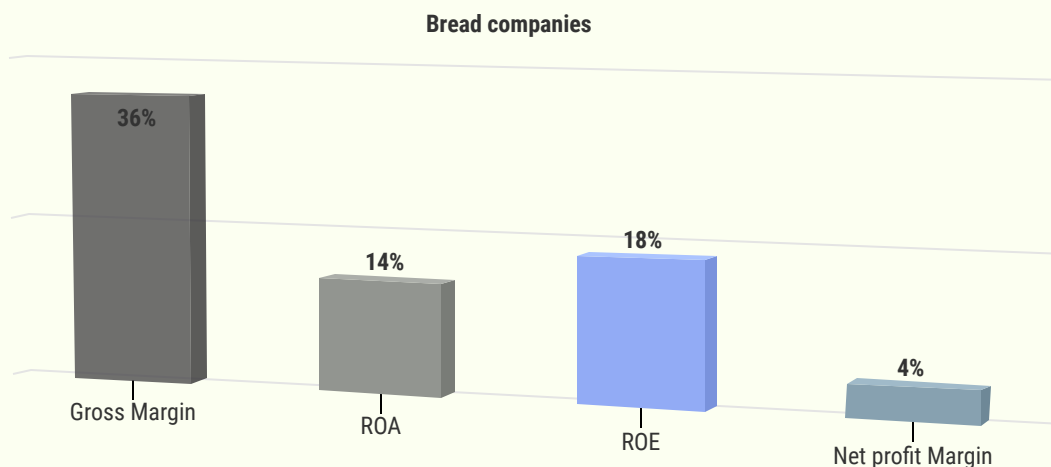
The study found that the liquidity ratios of the bread industry are quite high. The current ratio is 6.48 (when this figure is more than 1, the indicator is considered satisfactory), similarly the high liquidity ratio is 3.27. Even in this case, when the coefficient is more than 1, it is considered satisfactory.



Profit ratios

The profit ratios of bread companies were as follows: the gross profit margin was 36%, the return of assets (ROA) was 14%, and the return on equity was 18%, which is quite high considering that when this ratio exceeds 10, an indicator is considered as satisfactory.

It should be noted that the high income margin ratios, which exceed 36%, this indicator is an indicator of what percentage of the company sells its product compared to the cost. To a large extent, this indicator determines the profitability of the industry. However, there are also quite high costs in the industry, which is why the profit margin is 4%.



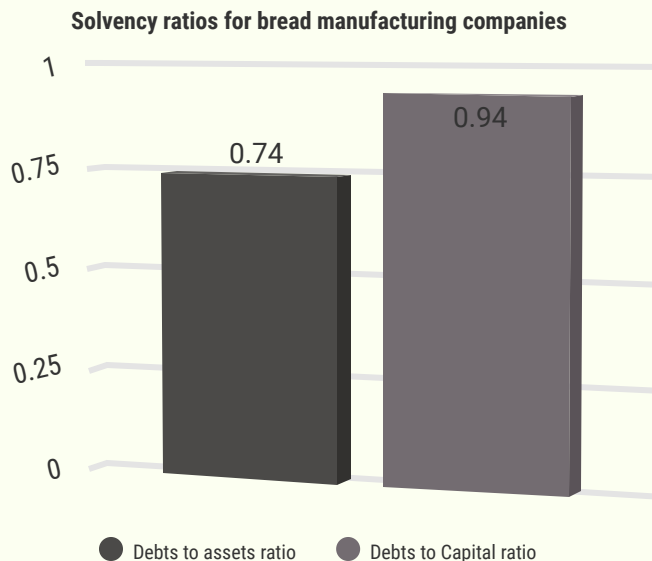


Average financial ratios of the industry (2018)

Debt ratios

Debts to assets ratio shows the ratio of total assets to liabilities. The average industrial rate is 0.74, indicating a decrease in liabilities to assets.

It is also noteworthy that the **debts to capital ratio** is 0.94, which indicates the relatively small capital investments of bread companies.

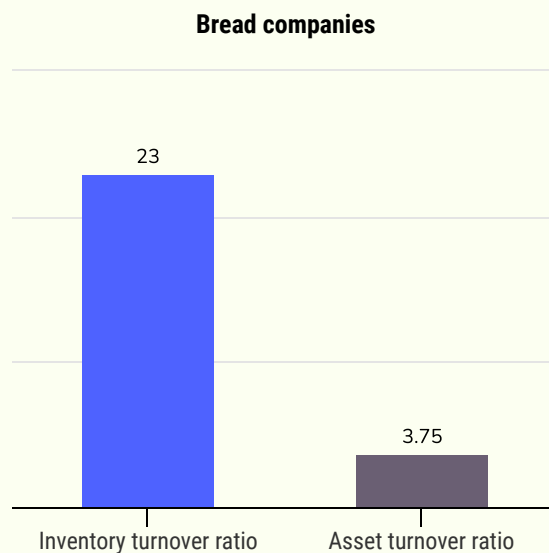


Efficiency ratios

Inventory turnover ratio is equal to 23, for bread companies, which is a high rate and indicates that companies are not having a hard time selling their stocks. In general, the higher this ratio, the higher the number of sales, and the less time it takes to produce the product in stock.

The high inventory turnover ratio is due to the industry's specialty because it is impossible to store stocks for long periods.

Assets turnover ratio in the bread industry is 3.75, the higher this ratio, the more efficiently the company can use its assets in terms of sales volume, which is due to the relatively low number of assets of the latter.





The report was prepared by AGIC, a consulting firm that has been operating since 2007 and provides the highest quality services in the areas of auditing, accounting, business consulting and marketing.

The company team consists of more than 40 highly qualified, experienced and professional employees who are focused on development and customer success.

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